



W-13

Copy 2 of Four.

25 May 1962

Jim

SUBJECT: Contract WE-1025
Preliminary Design Study

ENCLOSURE (1) - CPIF Type Contract Considerations Dtd 5/24/62
ENCLOSURE (2) - Security Discussion W-12 Dtd 5/25/62

Dear Temp:

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This is to inform you that we are handcarrying to
Rus five copies each of four volumes entitled Report of Three
Month Preliminary Design For [redacted]
[redacted] dated 5/25/62.

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Volume I of this report concerns system design/
development; Volume II - [redacted] Volume III - Recorder
Correlator Display Design and Volume IV GSE Design and Program
Management. Five additional copies of each of these volumes
will be hand carried on June 4 for your meeting. The submission
of ten copies of this report completes the requirement of Item 1
of the contract.

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We are submitting with this letter information on
security and CPIF type contract considerations. This informa-
tion was not submitted with the report because of the nature
of the information and the distribution of these items, we feel,
should be limited. A copy of our discussions on both of these
items (Enclosures 1 and 2) are being mailed to [redacted]
with his copy of this letter.

Sincerely,

Bob
Bob

25X1A

cc: [redacted]

May 24, 1962

Enclosure (1)

Edel #1

CPIF TYPE CONTRACT CONSIDERATIONSDPD 3406-62
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The nature of the work required by this program appears to fall in a category for which CPIF contracts are applicable as noted in ASFR 3405.4. [] is currently working on a number of CPIF contracts and is familiar with the unique problems and mutual advantages of such contracts. In accepting such a contract, past experience indicates that a number of factors must be considered by both parties to determine the mutual desirability of a CPIF type contract. For instance:

1. CPIF contracting requires more administrative close follow by both the customer and the contractor. Proposed contract changes must be evaluated for their effect on the incentive formula(s) and negotiated on a timely basis. Both parties must be prepared to support the program with the additional administrative effort required.
2. Selection of the incentive factors and the manner they affect the fee must be determined. Incentive fee can be based on any or all of a number of performance criteria - e.g. cost, delivery, product performance. If multiple criteria are used the specific factors, the portion of fee applicable to each, the definition of performance of each factor vs fee and the manner by which each factor is measured must be clearly set forth and understood by all participants to avoid disagreement when evaluating the effort of changes and settling the final fee.
3. After developing a mutually agreeable incentive fee formula, program plan and firm specification, the negotiation for estimated cost and incentive target fee would be based on a quotation reflecting any changes from our current proposal and conventional CPFF quotation. In considering such a revised quotation, it should be recognized that a CPIF type contract is intended primarily to provide the contractor an incentive to perform in excess of contract requirements, rather than penalize him.

If after considering these factors it is determined a CPIF contract is mutually desirable, we will be glad to enter into such a contractual relationship. Otherwise, it is understood a conventional CPFF type contract will be negotiated.

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SECURITY DISCUSSION

The security arrangement and procedures which have been followed on the preceding three month effort are considered still applicable and effective for the program proposed.

In view of the following salient points characterized security on this program:

1. Need to know security requirements were strictly enforced.
2. For internal administration purposes, both Itak's subcontract and our contract have been handled in essentially a conventional manner. This eliminated attracting attention as an unusual order.
3. Where required by the nature of their responsibilities, key people have been cleared and briefed. Other people participating are assigned work without divulging sensitive information. Everyone engaged on the program, whether briefed or not, are instructed this program is classified Secret and that they are to discuss no aspect of the job with anyone other than project or designated people. (This procedure is not unique in the engineering group involved.)
4. The SOARD program and the three month program have been naturally related . . . i.e., use of the same cognizant Air Force office and the preliminary design work being an application for a state of the art development (SOARD).

Continuation of this approach is recommended since it

(1) Safeguards disclosure of sensitive information to uncleared people.

(2) Is consistent with past practices and would not attract undue attention.

(3) Does not unduly restrict essential communications required to conduct the program.

(4) Does not compromise any aspect of the SOARD program and retains its state of the art development image.

A project organization has been proposed in Section 7 of the proposal which is compatible with this approach; it combines the SOARD program and the proposed program in one project group. Not only does this provide an effective use of manpower but, we believe, allows each program to compliment the other in regard to program intent as interpreted by unbriefed people. However, if we are selected for this program, we would not establish this organization without your approval because of security considerations.